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May 31, 1996

TOP SECRET

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TAIWAN'S NEW STYLE. EXUDING CONFIDENCE, TAIWAN APPEARS TO BE ADJUSTING ITS EXTERNAL POLICIES TO MATCH THE OPENNESS AND BOLDNESS OF ITS DOMESTIC REFORMS. LAST JULY, TAIPEI LIFTED THE BAN ON DIRECT TRAVEL TO HONG KONG--THE CONDUIT FOR BOTH ILLEGAL TAIWAN TRAVEL TO THE MAINLAND AND INDIRECT TRADE (AVERAGING DOLS. 1 BILLION ANNUALLY). IN NOVEMBER, CCK ANNOUNCED THAT FAMILY TRAVEL TO THE MAIN-

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LAND WOULD BE PERMITTED FOR HUMANITARIAN REASONS AND THAT MORE LIBERALIZATION WOULD BE CONSIDERED.

SIGNALING CONTINUITY, LEE TENG-HUI HAS ESCHEWED TAIWAN INDEPENDENCE AND REAFFIRMED THE POLICY OF NO CONTACT, COMPROMISE OR NEGOTIATIONS WITH THE MAINLAND. HE HAS HINTED AT FLEXIBILITY HOWEVER, THROUGH PRIVATE CONTACTS IN SPORTS AND CULTURE AND, POSSIBLY, VISITS BY LOWER-RANKING CIVIL SERVANTS.

ECONOMIC DIMENSION. THE PRACTICAL CHANGES IN TAIWAN'S STANCE TOWARD THE MAINLAND ARE FUELED BY PRESSURE FROM NATIVE TAIWANESE, WHO FORM THE OVERWHELMING MAJORITY OF THE ISLAND'S BUSINESS CLASS. TO ACCOMMODATE THEM, AND TO MAINTAIN LOW-COST MANUFACTURING AND THE COMPETITIVENESS OF TAIWAN'S EXPORTS, RULES ON INDIRECT IMPORTS FROM THE MAINLAND WERE RECENTLY LIBERALIZED. ALSO, RESPONDING TO COMPLAINTS OVER THE ADVERSE ECONOMIC CONSEQUENCES OF TAIWAN'S INTERNATIONAL ISOLATION, TAIPEI IS ACTIVELY EXPLORING A RETURN TO THE ASIAN DEVELOPMENT BANK AND MEMBERSHIP IN THE GATT, IRRESPECTIVE OF PRC MEMBERSHIP.

BEIJING'S ADJUSTMENTS. ALTHOUGH SOMEWHAT UNEASY WITH THE GROWING TAIWANESE POLITICAL ROLE ON THE ISLAND, BEIJING INRISS

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APPEARS COMFORTABLE WITH CURRENT TRENDS AND PLEASED WITH THE SOFTENING ATTITUDE TOWARD THE MAINLAND. DENG XIAOPING AND ZHAO ZIYANG HAVE TAKEN THE LEAD IN SIGNALING A DESIRE TO COMMUNICATE WITH ANY AND ALL GROUPS ON THE ISLAND, AVOIDING MEDDLESOME PUBLIC COMMENTARY ON TAIWAN POLITICS, AND INSTRUCTING CHINESE OFFICIALS TO ENSURE THAT TAIWAN VISITORS GAIN A FAVORABLE IMPRESSION.

IN PART TO ENHANCE PROSPECTS FOR GRADUAL, PEACEFUL REUNIFICATION, ZHAO HAS SAID THAT CHINA'S 200 MILLION COASTAL RESIDENTS SHOULD REACH HONG KONG AND TAIWAN LIVING STANDARDS BY THE YEAR 2000.

POSITIVE OUTLOOK. BOTH LEE AND ZHAO NEED STABILITY AND STRONG ECONOMIC PERFORMANCE TO STRENGTHEN THEIR AUTHORITY AS SUCCESSORS. NEITHER WOULD GAIN FROM TENSION THAT MIGHT REOPEN DEBATE ON CHINA POLICY DURING THE US ELECTION. IF MORE CONSERVATIVE ELDERS HOLD THEIR PEACE, THE NEW GENERATION OF TECHNOCRATIC LEADERS ON BOTH SIDES OF THE STRAIT MAY WELL CONCENTRATE ON COMPLEMENTARY ECONOMIC INTERESTS AND LEAVE POLITICAL ISSUES TO SUCCEEDING GENERATIONS.

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